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S E C R E T SECTION 01 OF 02 SAN SALVADOR 002333

SIPDIS

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TAGS: PREL ECON ES CH TW

SUBJECT: EL SALVADOR: DIALOGUE WITH TAIWAN ON PRC ACTIVITIES

REF: A. 2004 STATE 213125

1B. STATE 138041

1C. STATE 143649

Classified By: DCM Michael A. Butler, Reason 1.4 (d)

¶11. (C) This cable is in response to questions posed in reftel C. Embassy will reply to reftel B request for information on Chinese activities septel.

¶12. (C) El Salvador is one of the 26 countries that maintain diplomatic relations with Taiwan. Both to nurture this relationship and to continue to facilitate considerable private-sector investment, Taiwan maintains a representative office in San Salvador with staffing that includes two executive officers and at least one officer in each of the standard disciplines: political affairs, economic affairs, and public affairs, as well as an intelligence officer.

¶13. (C) Embassy officers including AMB, DCM, PolCouns and EconCouns have occasional contact with Taiwan counterparts at informal or protocol-driven events, in accordance with reftel a guidelines. Embassy officers have to date not sought out information on PRC activities, nor have Taiwan officials offered to share such information.

¶14. (C) The Taiwan International Cooperation and Development Fund provides backing for the Central American Economic Development Fund (ROC-CAEDF). Established in 1998, ROC-CAEDF has provided a number of loans to the GOES for environmental regulation, earthquake reconstruction, and educational development; three El-Salvador-specific loans have ranged from \$4 million to \$8 million. These loans have been part of a series of loans to all seven Central American nations in response to their recognition and support of Taiwan. Taiwan also provides incentives to companies to invest in these economies; however, it is not clear to what degree this has affected investment decisions of Taiwan's business sector.

¶15. (C) There have been large-scale business deals proposed but not signed, such as a \$470 million combined investment to build an optical-disk manufacturing plant, a shoe-manufacturing plant, and a medical campus. These are part of a first-tier investment that would later include assistance to improve the port of Acajutla, as well as rail lines through El Salvador and Guatemala to the Guatemalan Gulf Coast, providing a rail-bridge alternative to the Panama Canal. This would open up new trade routes from Asia to the U.S. East Coast.

¶16. (C) According to figures published by the Central Reserve Bank of El Salvador (BCR), Taiwan had \$56.9 million in foreign direct investment in El Salvador in 2003, \$57.5 million in 2004, and \$57.7 million from January to March of 2005. In 2003, exports to Taiwan were \$1.9 million, with imports from Taiwan totalling \$58.5 million. From January to June of 2004 (the most recent BCR data available), exports totaled \$0.7 million, with \$21.6 million in imports.

¶17. (S/NF) Defense attaches remain in close contact with the current Taiwanese defense attache to El Salvador, who graduated from El Salvador's military academy and has classmates in the upper echelons of the Salvadoran armed forces (ESAF). Embassy's defense attaches meet with the Taiwanese attache approximately once a month to discuss PRC activities in the region, although his information is second-hand and comes from his supervisor in Panama. We consider this information reliable regarding PRC activities in the region, although the emphasis on collection tends to be influenced by the location of the attache's supervisor in Panama.

¶18. (S/NF) The Taiwanese attache office consists of one officer, a secretary, and a driver. They seem to be very influential with the upper echelons of the ESAF, primarily due to personal relationships they maintain with their Salvadoran counterparts. Additional contact would allow us to be more effective in determining Taiwan's military assistance objectives for El Salvador, and to ascertain better the PRC's role and influence with the Salvadoran military.

¶19. (C) Embassy sees value in seeking enhanced dialogue with Taiwan representatives on Chinese activities, and believes that Taiwan representatives would be open to sharing information that could serve as an additional source to

enhance USG ability to track Chinese activities in the Western Hemisphere. In response to reftel B request, Embassy will tap an acquaintance relationship with Taiwan's commercial officer for general information on PRC trade and investment activities. However, Taiwan representatives will likely see increased contact as an opportunity to influence USG views, and may portray--to GOES officials--additional Embassy contact as increased U.S. support for Taiwan's positions and activities in the region.

Barclay